

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 DODE-00 PA-01 PRS-01 /099 W

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R 100702Z SEP 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 6529

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE ZEN

AMCONSUL SYDNEY

USDEL MTN GENEVA

USMISSION OECD PARIS

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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SYDNEY ALSO PASS TRADE CENTER

EO 11652: N/A

TAGS: EGEN, EFIN, AS

SUBJ: AUSTRALIAN DEVALUATION RUMORS

1. WIDESPREAD PRESS SPECULATION OVER POSSIBILITY OF AUSTRALIAN DOLLAR DEVALUATION SURFACED THIS WEEK FOLLOWING RELEASE OF OFFICIAL BALANCE OF PAYMENTS DATA SHOWING APPARENT AUGUST CAPITAL OUTFLOW OF APPROXIMATELY \$A100 MILLION. THIS WOULD REPRESENT TURNAROUND OF APPROXIMATELY \$A200 MILLION COMPARED WITH JULY. OUTFLOW ATTRIBUTED BY SOME OBSERVERS TO BUSINESS EXPECTATION OF AUSTRALIAN MOVE TO FOLLOW AUGUST 10 15 PCT. NEW ZEALAND DEVALUATION. DESPITE LIVELY INTEREST IN DEVALUATION POSSIBILITY IN PRESS AND BUSINESS CIRCLES, THE ECONOMIC CASE FOR ANY DEVALUATION MOVE AT THIS TIME SEEMS EVEN WEAKER THAN AT TIME OF SEPTEMBER

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1974 DEVALUATION WHICH WAS SUBSEQUENTLY WIDELY JUDGED TO BE ILL-

ADVISED MEASURE PRIMARILY CHOSEN AS ALTERNATIVE TO TARIFF INCREASES.

2. AUSTRALIAN TRADE BALANCE CONTINUES AS ONE OF BRIGHT SPOTS IN GENERALLY DARK ECONOMIC SCENE. FOR TEN SUCCESSIVE MONTHS EXPORTS HAVE EXCEEDED IMPORTS WITH AUGUST EXPORTS AT NEAR RECORD \$A800 MILLION AND IMPORTS DOWN TO \$A634 MILLION REFLECTING SEPTEMBER 1974 DEVALUATION AND GOA IMPORT RESTRAINTS TO RELIEVE UNEMPLOYMENT. MOREOVER, RESERVE BANK HAS TWICE IN PAST SIX WEEKS TIGHTENED LIQUIDITY BY RAISING REQUIRED BANKING RESERVES, A STEP WHICH WOULD BE FRUSTRATED BY EXPORT-STIMULATING AND INVESTMENT-ATTRACTING DEVALUATION, WHILE INCREASED IMPORT PRICES WOULD AUGMENT SERIOUS INFLATIONARY PRESSURES.

3. WHILE RESERVES DECLINED \$A111 MILLION IN AUGUST, THIS WAS FIRST MONTHLY DECLINE SINCE MARCH AND LEVEL OF RESERVES CURRENTLY AT COMFORTABLE \$A3.4 BILLION. THIS LEVEL DOWN FROM 1973 PEAK, BUT HIGHER THAN LOW POINT OF \$A3.2 BILLION IN DECEMBER 1974 AND REPRESENTS OVER FIVE MONTHS OF IMPORTS AT 1974-75 AVERAGES.

4. MANY PROPONENTS OF DEVALUATION ARGUE THAT IT IS NECESSITATED BY THE EFFECT OF THE NEW ZEALAND ACTION ON THE AUSTRALIAN TRADE POSITION. WHILE AUSTRALIAN TERMS OF TRADE WITH NEW ZEALAND HAVE OBVIOUSLY WORSENERED AS THE RESULT OF NEW ZEALAND'S DEVALUATION, NEW ZEALAND ACCOUNTS FOR ONLY ABOUT FIVE PERCENT OF TOTAL AUSTRALIAN TRADE AND THE COST OF A DEVALUATION TO OVERALL AUSTRALIAN ECONOMIC POLICY OBJECTIVES SHOULD CONSIDERABLY OUTWEIGH ANY COMPETITIVE BENEFITS WHICH MIGHT BE GAINED VIS-A-VIS NEW ZEALAND.

5. ON BALANCE THEREFORE WE BELIEVE THE ECONOMIC CASE FOR AUSTRALIAN DOLLAR DEVALUATION AT THIS TIME IS THIN AND THAT THE IMPLICATIONS OF SUCH A MOVE CONFLICT SO SHARPLY WITH THE OBJECTIVES OF THE RECENTLY-INTRODUCED AUSTRALIAN BUDGET THAT THERE IS LITTLE GROUND FOR THE CURRENT PUBLIC AND PRESS SPECULATION ON THE POSSIBILITY OF A DEVALUATION IN THE NEAR FUTURE. IN THE LONGER RUN, THE ECONOMIC CASE FOR SUCH A MOVE WILL BE STRENGTHENED IF INCIPIENT PRICE WEAKNESS IN SOME OF AUSTRALIA'S MAJOR EXPORTS SHOULD MATERIALIZE AND CONTINUATION OR WORSENING OF CURRENT HIGH UNEMPLOYMENT LEVELS AND SLUGGISH INVESTMENT FLOW CAUSES THE RECENTLY ADOPTED GOA ANTI-INFLATION PRIORITY ONCE AGAIN TO LIMITED OFFICIAL USE

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REVERT TO A PRE-OCCUPATION WITH REFLATION.  
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